

Message Text

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ACTION EUR-10

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

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TO SECSTATE WASHDC 4742

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TAGS: ENRG, CA, US

SUBJ: PRESS REPORT ON STATE OF U.S.-CANADIAN ENERGY

RELATIONS

UNDER CAPTION "U.S. OFFICIALS DENY OIL TAX RETALIATION", FOLLOWING BOGDAN KIPLING (FINANCIAL TIMES) STORY APPEARS IN MONTREAL GAZETTE OF OCT 10 ON CURRENT STATE OF U.S.-CANADIAN ENERGY RELATIONS: BEGIN QUOTE. STATE DEPARTMENT AND TREASURY OFFICIALS DENY A PUBLISHED REPORT THAT THE UNITED STATES INTENDS TO RETALIATE IN KIND FOR CANADA'S OIL EXPORT TAX.

THE ALLEGED PLAN TO HIT BACK AT CANADA WAS REPORTED IN "OILGRAM", THE AUTHORITATIVE DAILY NEWSLETTER PUBLISHED BY MCGRAW-HILL INC.

OILGRAM SAID MONDAY THAT THE "U.S. ADMINISTRATION IS CONSIDERING IMPOSING TRANSIT TAXES ON OIL FLOWING TO CANADA THROUGH PIPELINE ON U.S. TERRITORY." IT ADDED THAT "THE INTENT OF THE DUTIES WOULD BE TO FORCE CANADIANS TO LOWER OR DROP ENTIRELY THEIR CRUDE (OIL) EXPORT TAX."

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THE PIPELINES INVOLVED ARE THE ONE WHICH CARRIES

OVERSEAS CRUDE FROM PORTLAND, MAINE, TO MONTREAL AND THE LAKEHEAD LINE WHICH TRANSSHIPS WESTERN CANADIAN CRUDE ACROSS U.S. SOIL.

WILD NOTION

THE NEWSLETTER SAID ENERGY MINISTER MACDONALD AND FEDERAL ENERGY ADMINISTRATOR JOHN SAWHILL "MAY HAVE" DISCUSSED THE POSSIBILITY OF SUCH AMERICAN TAXES WHEN THEY MET HERE FRIDAY.

ALTHOUGH THE CANADIAN EMBASSY CHECKED THE STORY WITH THE U.S. TREASURY, THE STATE DEPARTMENT HAS NOT BEEN ASKED ABOUT IT.

RUFUS SMITH, RETIRED ASSISTANT DEPUTY SECRETARY OF STATE FOR CANADIAN AFFAIRS, SAID OILGRAM HAD COME UP WITH A "WILD NOTION", LEGAL COMPLICATIONS ALONE WOULD PREVENT WASHINGTON FROM IMPOSING SUCH TAXES. SMITH, WHO HOPES HE WILL BE REPLACED BY THE END OF THE MONTH, IS STILL HOLDING THE CANADIAN FORT AT THE STATE DEPARTMENT.

TREASURY OFFICIALS ARE SAID TO BE DIVIDED. ALTHOUGH TREASURY SECRETARY SIMON OPPOSES RETALIATION, "THERE ARE MANY WHO WOULD LIKE TO HIT BACK," ONE SOURCE SAID. THE HAWKS ARE PARTICULARLY ANGRY BECAUSE THE EXPORT TAX MEANS THAT CANADIAN OIL SELLS ABOVE WORLD PRICES IN AREAS WHERE THERE IS NO ALTERNATIVE SUPPLY AVAILABLE.

ROBERT FAUVER, WHO MANS THE TREASURY DEPARTMENT'S CANADIAN DESK, DISCLAIMED ALL KNOWLEDGE FOR THE PROPOSED TRANSIT TAX: "IT WOULD FLY IN THE FACE OF ALL STATED POLICY."

CANADA WANTS A TREATY WITH THE U.S. BY WHICH EACH COUNTRY WOULD GUARANTEE THE SAFETY OF THE OTHER'S PIPELINES ON ITS TERRITORY. BUT IT'S AN "AFTER YOU,
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ALPHONSE" SITUATION WHEN IT COMES TO FINDING OUT WHO IS WAITING FOR WHOM.

ASKED FOR DATE

MACDONALD IMPLIED LAST WEEK THAT OTTAWA IS WAITING FOR WASHINGTON. THE STATE DEPARTMENT CLAIMED IT HAD ASKED FOR A DATE FOR TALKS AND GOT NO REPLY FROM OTTAWA. MACDONALD BLAMED THE DELAY ON WATERGATE AND THE CANADIAN ELECTION. BOTH OF WHICH HAVE BEEN OUT OF THE

WAY FOR SOME TIME.

OTTAWA WANTS THE PIPELINE FROM ALASKA TO RUN UP
THE MACKENZIE VALLEY SO THAT CANADIAN GAS COULD RIDE
PIGGYBACK FOR LITTLE COST. BUT WASHINGTON SOURCES
SUGGEST THAT THE U.S. IS DRAGGING ITS FEET WHILE IT
CHECKS OUT THE ALTERNATIVE OF A TRANS-ALASKA LINE AND
A TANKER ROUTE, WHICH WOULD GIVE THE AMERICANS A MUCH
STRONGER BARGAINING POSITION.

SOME SOURCES BLAMED THE DETERIORATION OF CANADIAN-
AMERICAN RELATIONS. CANADA IMPOSED THE OIL EXPORT TAX
BEFORE THE YOM KIPPUR WAR AND THE ARAB OIL EMBARGO.
CANADA ALSO HAS HIRED THE PRICE OF NATURAL GAS TWICE
AND MACDONALD SAID HERE LAST WEEK THAT IT WOULD SOON
COST AMERICANS \$1.80 PER 1,000 CUBIC FEET, COMPARED
WITH 32 CENTS A YEAR AGO.

FUMING

THESE GRIEVANCES RANKLE IN WASHINGTON AND MANY
OFFICIALS AND POLICY MAKERS ARE FUMING EVEN THOUGH
THE OFFICIAL LINE REMAINS THAT "WE UNDERSTAND CANADA."

"CANADA IS A DE FACTO MEMBER OF OPEC (THE
ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES)," SAID
ONE TREASURY OFFICIAL, "AND MAY AS WELL JOIN THE CARTEL
OPENLY."

IN THIS ATMOSPHERE, RETALIATION IS NOT OUT OF THE
QUESTION ALTHOUGH OILGRAM MAY HAVE BEEN WRONG ABOUT THE
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METHOD. END QUOTE. PORTER

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